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SUBJECT: PRT/KUNDUZ - FEYZABAD'S MAYOR DISCUSSES TAX REFORM, CITY
BUDGETS AND HIS ARREST ON CORRUPTION CHARGES

SUMMARY

1. (SBU) State PRTOff recently discussed city politics with embattled Feyzabad Mayor Engineer Momenshah. Momenshah, a construction company owner from northern Darwaz District with prior experience in the NGO and development community, was appointed mayor in early 2008 under the sponsorship of former Governor Majid. In early 2009, Momenshah was arrested by the Badakhshan Provincial Prosecutor, Ahmraddin Yaman, on charges of corruption and collecting illegal taxes. After staying in jail for a week, Momenshah was removed from office pending the resolution of his case. Momenshah's predicament highlights the difficulties and dangers faced by those navigating local Afghan politics.

FIXING THE WORST ROAD IN THE NORTHEAST

2. (SBU) With years of construction and NGO development work under his belt, having worked for the WFP, UNICEF and UNOPS earlier in the decade, Engineer Momenshah claims he took over the mayor's office with a reformist mindset. Indeed, anticipating the extra traffic expected upon the completion of the Kishim-Feyzabad road, one of Momensha's first acts as mayor was to straighten the steep, windy road connecting the old and new cities, significantly reducing traffic snarls and drive times, though leveling part of the old bazaar in the process. Emboldened by this quick and early success, the mayor then decided to tackle the tricky issue of municipal tax reform.

CITY BUDGET AND REVENUE REFORM

3. (SBU) Momenshah reports that once in office, he faced crippling budget constraints due to outdated and arbitrary systems of city tax collection and budgeting. The city's development and operating budgets, in theory allocated by Kabul, did not exist. Feyzabad's entire annual budget instead came from local taxes on livestock, wheat, rice and flour sales under regulations and methods dating to the reign of Mohammed Zahir Shah. Other taxes or fees, such as that on potable water, simply disappeared into the relevant offices. Furthermore, the city budget was spent at the personal discretion of both the governor and the mayor. Using newer tax regulations promulgated by Kabul five years ago (1383) but never implemented as a guide, Momenshah met with local officials and line departments to work out an ambitious and transparent tax collection and budget system. Instead of directly taxing individual vendors at the bazaars, taxes would now be collected on imported goods at the city gates. From these checkpoints, tax officials could now examine the shipping documents of trucks to determine the type of good being imported and its final destination.

4. The new system also broadened the range of goods to be taxed. According to Momenshah, the new scheme was approved at an Executive Committee meeting in spring 2008 by relevant line departments and

offices, including the Governor's Office, the Ministry of Finance and the Prosecutor's Office. Tax collection services were then auctioned off to a company promising revenues of at least 3.6 million Afghanis per year. Finally, Momenshah reworked the city budget so that 45 percent of revenues went to the city's operating budget and 55 percent to development and construction projects. Funding the operating budget was significant, Momenshah says, given that so many employees received little or no regular salary. Armed with committee approval and with the support of Governor Majid, the new tax collectors started work at the city gates in May 2008.

UNPOPULAR TAXES

15. (SBU) From the start, the new tax system was unpopular and met with opposition from many corners of Feyzabad. Fuel, cement and steel bar traders in particular protested loudly at being taxed for the first time. Delegations from these local businesses complained formally to the Governor, saying the new checkpoints and taxes on their goods were illegal. Governor Majid, himself an outsider with no firm power base in the province, passed the issue to Independent Directorate of Local Governance (IDLG) in Kabul for a formal opinion. After consultation with the Ministry of Finance, IDLG then issued a precise listing of the types of goods to be taxed by municipalities throughout the country, essentially sanctioning Feyzabad's new system. Local opposition then turned to Provincial Prosecutor Ahmruddin Yaman and Mawlawi Abdul Akhmad Nazif, a prominent local religious and political figure whom Momenshah had replaced as mayor, for help.

OPPOSITION WITH AMMUNITION

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16. (SBU) According to Momenshah, Yaman and Nazif had longstanding grudges against him. Momenshah had earlier refused Yaman's request to allocate a prime spot in Feyzabad's public park for a new prosecutor's office building, while Nazif was still bitter about losing his job as mayor. Now using the tax issue to mobilize support, Yaman and Nazif were able to attack Momenshah openly, opening a formal investigation into his office. After months of jockeying, Yaman finally arrested Momenshah and held a press conference accusing him of corruption and illegal tax collection. Governor Majid, under increasing pressure of his own and soon to lose his office in the latest shuffle of provincial governorships, suspended Momenshah and reappointed Nazif as temporary mayor.

COMMENT

17. (SBU) With charges still pending and his former patron no longer in office, Momenshah understands he will not be returning to office, but is hopeful that charges will now simply be dropped. What he finds particularly frustrating is that his tax collection reforms are still in place, with revenues expected to top 9 million Afghanis this year, a threefold increase over previous municipal revenues. Momenshah claims that Feyzabad is the first city in Afghanistan to actually put the 1383 tax reforms in place. While it remains to be seen if the charges against him are backed by hard evidence, Momenshah's case stands as a reminder of the challenges faced by other would be reformers.

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